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## Foe of Iran Regime Leaves France, Is Welcomed in Iraq

By Michael Dobbs

PARIS — The leader of a leftist Iranian opposition group has left France under apparent government pressure in a move interpreted here as a conciliatory gesture by France toward Tehran and the program kidnappers of French citizens in Beirut.

Masoud Rajavi, leader of the Mujahidin Khalq, which has been waging a guerrilla campaign against the Iranian government, flew out of Paris on Saturday afternoon aboard a private aircraft. He had been in exile here since July 1981.

## Troops Move Against Sikh Extremists

CHANDIGARH, India —

Thousands of paramilitary troops entered Punjab on Sunday to raid the hideouts of Sikh extremists after at least 12 persons were killed in weekend attacks in the north Indian state.

A police official said the Punjab chief of police, Julio Ribeiro, was in Amritsar, the Sikh holy city, to direct the raids on extremist strongholds along the border with Pakistan. "We are going to attack them," the official said.

Earlier, the chief minister of Punjab, Shri Singh Bernala, went to Amritsar to meet with Sikh leaders. He said the government was determined to bring the situation under control.

After the killings, 4,000 troops were sent to the districts of Amritsar and Gurdaspur on the border with Pakistan. They joined about 35,000 troops already deployed across Punjab to assist its 34,000-man police force.

The police official said thousands of troops from the Border Security Force and the Central Reserve Police Force were sent to Punjab in seven towns in the region in an attempt to restore confidence among Hindus, who are in the minority in the Sikh-dominated state.

Punjab's moderate Sikh government has said about 1,200 Hindus have fled to neighboring Indian states to escape the strife.

Police said that in the latest attack, two Hindus were killed and a third was wounded when three Sikh gunmen opened fire at a gathering in a Hindu shrine in Gurdaspur district on Sunday.

The wave of killings came at the end of a week of protests by radical Sikh groups mourning the 1,000 Sikhs killed in the assault by the Indian Army on the Golden Temple on June 6, 1984. The Golden Temple, in Amritsar, is the holiest shrine of the Sikh religion.

At a memorial meeting in the Golden Temple on Friday, the militants threatened death to the state police chief and the Punjab chief minister, and assailed India's central government.

On Friday night three men were killed in an Amritsar suburb, and a Hindu watchman was gunned down in a city market.

The same night, police said, extremists killed an Iranian student in Patna and fled with his motorcycle.

Five ice cream sellers were shot dead on Saturday outside a factory on the outskirts of Amritsar.

Earlier in the week, Sikh militants turned with iron bars, swords and bamboo staves had rampaged at the Golden Temple, and a guard was killed by a shot.



Marcos backers burned an effigy of Corason C. Aquino during a Manila rally on Sunday.

## U.S. Ordered by Court to Release \$7.6 Million in Assets to Marcos

By George Lardner Jr.  
WASHINGTON — A U.S. judge has ordered the return of more than \$7.5 million in jewelry, currency and other goods seized from the former Philippine president, Ferdinand E. Marcos, and members of his entourage when they landed in Hawaii in February. The ruling was harshly critical of the U.S. Customs Service.

Judge Harold Fog of the U.S. District Court in Honolulu ruled Friday that the Customs Service had no right to hold the property. The judge said it had "grave reservations" about the agency's conduct and voiced suspicions that "certain employees and attorneys representing Customs have been less than candid with the court."

In Manila on Sunday, thousands of supporters of Mr. Marcos, armed with bottles, stones and slingshots, battled policemen who kept them from marching to the presidential palace by hurling tear gas bombs and firing into the air. The Associated Press reported.

(Police and hospital officials said 21 persons, including seven police officers and two infants, were injured during two hours of battles and chases through city streets.)

Judge Fog said the Customs Service "has not seized the goods pursuant to any investigations into potential violations of U.S. law." He rejected the agency's position that it could hold the property until it determined its rightful owner.

That position, the judge said, "flies in the face of nearly 200 years of custom law and practice."

The order also appeared to apply to the more than 2,000 pages of financial documents that were taken from Mr. Marcos when he landed in Honolulu on Feb. 26, and were later released to his supporters by a Foreign Affairs representative.

The documents were subpoenaed by a federal grand jury and are now in the custody of the Justice Department.

Judge Fog's ruling does not affect a lawsuit by the Central Bank of the Philippines seeking return of the currency on the ground that it had been removed illegally from the Philippines. The bank's attorneys are expected to argue that the money should be held until that case is settled.

Dennis Murphy, a Customs Service spokesman in Washington, said the agency would not release

## Waldheim Is Elected President of Austria

By David Storey

VIENNA — Kurt Waldheim, the former United Nations secretary-general, was elected president of Austria on Sunday in the second round of voting of an election marked by controversy over his service in Hitler's army.



Kurt Waldheim greeted supporters outside People's Party headquarters on Sunday after his victory was announced.

Israel hinted it would consider a change in the level of ties with Austria, Page 6.

and that his Socialist Party rival, Kurt Simeyer, received 46.1 percent, with the results of one polling station outstanding.

Mr. Waldheim said that his task would be to heal the wounds that had been opened in Austrian society. "My first task will be to try to bring all the political parties together so that we can solve the great problems of the future," he said.

Mr. Waldheim consistently denied allegations by the New York-based World Jewish Congress and other groups that he participated in war crimes during the German campaign in the Balkans from 1942 to 1945 and later covered up his role.

(Investigations are under way by the United States, Israel and Britain. But the U.S. Justice Department said Sunday that, as the elected Austrian president, Mr. Waldheim would be allowed into the United States regardless of the outcome of any investigation. The Associated Press reported.)

Mr. Waldheim, the candidate of the conservative People's Party, will succeed Rudolf Kirchschlager, an independent politician who was the Socialist Party's vice president in the largely ceremonial presidency.

It was the first time since World War II that the Socialist candidate had failed to win the presidency.

Political sources said that the result was a clear sign of voter rejection of the ruling Socialist Party and that the vote indicated a chance for the People's Party to win the general election scheduled for April and take power after 16 years of opposition.

Socialist officials were expected to meet to discuss possible calls for an early election and the future of the Socialist party leader, Chancellor Fred Sinowatz, the sources said.

Mr. Sinowatz said last week: "We do not intend to link the presidential election with other political issues." He added, "We will win in early May."

Attempts to reach the spokesman at the Nicaraguan Embassy in Washington were unavailing. The

## Reagan to Assert Soviet Sends Arms to Managua

By Gerald M. Boyd  
WASHINGTON — White House officials said Saturday that President Ronald Reagan, in a campaign to win congressional approval of new aid for Nicaraguan rebels, would assert this week that the Soviet Union has resumed direct arms shipments to Managua.

The officials said Saturday that U.S. intelligence sources had information showing that a Soviet freighter delivered a large amount of military supplies to Nicaragua in early May.

Attempts to reach the spokesman at the Nicaraguan Embassy in Washington were unavailing. The

spokesman was in Nicaragua, according to the person who answered the phone, and no one else could be reached.

The White House officials speculated that the reported shipment of hardware was intended to help Nicaraguans mount a new drive against the U.S.-backed guerrillas seeking to overthrow the Sandinist government.

Mr. Reagan is hoping to win approval by the House of Representatives for \$100 million in aid to the rebels, who are known as "contras." He is expected to lobby heavily over the next two weeks, before the scheduled House vote on the package. The president is seeking \$70 million in military aid and about \$30 million for nonmilitary purposes.

The White House officials said the Soviet arms shipment they described was one of several important developments since March, when the House rejected Mr. Reagan's aid request, that would strengthen the White House case this time.

The officials said Mr. Reagan is expected to assert that the Nicaraguan government has increased repression in recent months, including a new crackdown on the political opposition, and that Nicaragua has actively sought to thwart regional efforts to negotiate a peace.

The new administration assertion about Soviet arms was made by a senior White House official and later repeated by another Reagan aide who said he had seen intelligence reports supporting the assertion. The officials said they were unable to provide documentary evidence because of sensitivity over how the information was obtained.

Administration officials have been reluctant to discuss Soviet arms deliveries to Nicaragua since they were embarrassed by assertions in November 1984 that Moscow might be supplying MIG-21 fighters to Managua. The assertions came after a U.S. surveillance satellite passing over a Soviet port observed 12 crates of the kind that usually carry MIGs next to a Soviet freighter, the Bakuriani.

U.S. intelligence analysts later concluded that there had probably not been any fighter planes aboard the Bakuriani when it was unloaded at the Nicaraguan port of Corinto, although some White House officials suggested that the planes might have been stored below deck and not unloaded because of the sharp protests by Washington to Moscow.

According to the U.S. officials, the new arms shipment marked the first time in more than 18 months that the Soviet Union has supplied arms to Nicaragua.

See NICARAGUA, Page 3

## Moscow Warns Pretoria On Angola Port Attack

Compiled by Our Staff From Dispatches  
MOSCOW — The Soviet Union warned South Africa on Sunday that its attack on a Cuban and two Soviet merchant ships in the Angolan port of Namibe "cannot be left unpunished" and said Pretoria faced far-reaching and dangerous consequences because of its action.

The government also said the United States had to share partial responsibility for the attack because of its support for South Africa.

Radio Moscow reported Saturday that two Soviet ships were badly damaged and a Cuban ship was sunk in the attack on Thursday. The report said that frozen assets attached to the hulls of the ships and that "at almost the same time gunboats opened fire on the port installations with missiles."

The Angolan news agency ANGOP had previously reported that a South African warship slipped off the coast there Sunday, and was forced to flee, in addition to the attack on the ships.



attacking the ships, the agency said, the ships fired missiles that hit an oil storage depot on shore.

No Soviet casualties were reported in the action.

South Africa has refused to comment on the attack. In Cape Town on Sunday, a South African Foreign Ministry spokesman, Avie Marais, also refused to comment on the Soviet warning.

The Soviet government statement, carried by the official Tass news agency, condemned the attack as an act of terrorism.

"Responsible for the act of terrorism in the Port of Namibe in Angola is the Republic of South Africa," the statement said. "Actions of this kind cannot be left unpunished."

The statement gave no indication of how the Soviet Union, which has more than 1,000 military advisers in Angola, would retaliate.

"Responsibility for this is also shared by those who patronize the Republic of South Africa, above all the United States," the statement said.

The Soviet Union said the United States had proved it was against terrorism by putting pressure on South Africa to stop "fomenting the generally accepted norms of international law."

It said frequent that United States and British voices in the United Nations on resolutions calling for comprehensive sanctions against Pretoria have been interpreted as an act of terrorism.

See ANGOLA, Page 6

## Chernobyl Creates a New Tightrope

By Jackson Diehl  
WASHINGTON Post Service  
WARSAW — Private farmers' strikes by phasing food sales and Western bankers' building billions of dollars of debt have emerged as the most tangible losses since the aftermath of Eastern Europe's contamination by the Chernobyl nuclear accident.

The Soviet bloc governments of the region and their satellites over clear power programs, meanwhile, appear to have survived the crisis largely unscathed.

The accident appears to have made the safety of nuclear power a public issue in Eastern Europe for the first time since a widespread program to build nuclear power plants began in the late 1970s.

It also has raised questions about the Soviet Union's relations with its allies, who clearly were concerned about Moscow's failure to provide timely information after the disaster April 25.

Yet, as the leaders of Moscow's

six East European allies prepare to meet with Mikhail S. Gorbachev, the Soviet leader, in Warsaw next month, there is no public sign that Eastern Europe's nuclear accident has created a new tightrope for the second day in West Germany, Page 2.

Anti-nuclear protesters and police clashed for a second day in West Germany, Page 2.

plants scheduled to open in Bulgaria, Czechoslovakia, Hungary and East Germany by the end of next year.

The relatively small consequences of the accident, Western diplomats and experts said, illustrate the degree to which Eastern Europe's alternatives in energy policy are constrained by Soviet resources and technology.

At the same time, concern about a Soviet reaction seems to have caused several governments in the region to play down economic damage.

"They can't address the problems of farmers without embarrassing the Soviets," a Polish agricultural expert said. "So they are trying to do as little as possible."

Despite the ability of Communist governments to deflect the issue of losses after the accident, there are some signs that public concern about the safety of nuclear plants may emerge as an enduring problem.

Plans call for an increase in the number of nuclear reactors from 18 to 30 in the six countries by the end of the century, including eight

Polish authorities already have faced a variety of petition drives and small-scale protests on nuclear issues since the accident, including calls for a re-examination of plans for the country's own nuclear power program.

The public pressure prompted government assurances that structures to contain radiation leaks would be built into Poland's nuclear stations and new safety measures would be adopted, even at the cost of delaying their construction. Romania and Bulgaria also have promised publicly to re-examine safety issues.

Such public pledges are significant, if only because Eastern European governments previously dismissed the issue of nuclear safety as a Western media phenomenon.

Official reports, however, have indicated to far that safety concerns are not likely to slow the rapid pace of nuclear construction in the region.

The anxiety of Polish society brought about by the breakdown was understandable, said the nation's leader, General Wojciech Jaruzelski, in a speech last week. But he added, "Poland will be able to do without nuclear power for a long time."

See NUCLEAR, Page 6



Jean-Louis Boissier hoists his trophy Sunday after beating Michael Pennington in the finals of the French Open. Page 19.

## INSIDE

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■ Thailand's prime minister, who was expected to visit, has decided not to seek an elective position. Page 2.

### SPORTS

■ Danzig Connection brought the trainer Woody Stephens his first consecutive victory in the Belmont Stakes. Page 19.

### BUSINESS/FINANCE

■ Two insider-trading cases pushed Wall Street to review security procedures. Page 7.

### PERSONAL INVESTING

A midyear survey of the world's stock markets finds they are shifting gears, and the transition may be rough. Page 11.

## EC, Worried by U.S. Rift, Acts to Improve Dialogue

HEMSEKERR, Netherlands — The European Community, worried by deteriorating relations with the United States, ordered Sunday that its officials examine ways of improving dialogue with Washington.

The decision, prompted in part by a U.S. plan to abandon the SALT-2 arms treaty with the Soviet Union, was made by foreign ministers during a two-day meeting.

The Netherlands foreign minister, Hans van den Broek, said that the ministers had ordered the policy review in a special attempt to coordinate U.S.-European action in areas of international law.

EC diplomats said the ministers' decision underlined worries that the two sides were drifting apart on a range of foreign policy issues. They added that these concerns were likely to be the main focus of attention at a summit meeting June 26.

Mr. van den Broek, president of the EC Council of Ministers, said the SALT-2 issue had not been discussed. Diplomats said this was mainly because of Irish sensitivity over the issue.

The Soviet Union is losing hope for an arms accord with the Reagan administration, Page 2.

about becoming involved in discussions concerning the North Atlantic Treaty Organization, which Ireland is not a member.

Giulio Andreotti, the Italian foreign minister, told Italian television that the European had rejected the 1979 SALT-2 treaty had to be retained.

The White House has said the East-West rift had been intensified by the Soviet Union's breach of its provisions. The Soviet Union denies that it is violating the treaty.

The ministers' talks focused on other differences with the U.S. on



Hans van den Broek

handling problems of the Middle East, Central America and other issues, as well as East-West relations, as aspects of a growing threat of a trans-Atlantic trade war, EC diplomats said.

Mr. van den Broek said the ministers' talks focused on other differences with the U.S. on

## WORLD CUP SOCCER

### Sunday Results

West Germany 2, Scotland 1

Belgium 2, Iraq 1

Match details and expanded sports news, Pages 18-19.





## AMERICAN TOPICS

### Democrats May Seize On Issue of 'Safety'

Some Democrats say they may have found an issue with national appeal in "safety," and hope to convince the public that they care more about the safety of the nation than nuclear power.

Steven V. Roberts reports in The New York Times: "The safety issue started to evolve when party advisers noticed that on public opinion surveys, voters said they wanted government protection from all the hazards connected with nuclear power, from the disposal of waste to the prevention of war."

"The concern," he wrote, "is the Soviet nuclear disaster and by the debate in the United States over where to locate a permanent nuclear waste dump."

Safety is a theme that "says different things to different people," said Charles J. Matthews, a spokesman for the speaker of the House of Representatives, Thomas P. O'Neill Jr. of Massachusetts.

But Republicans say that emphasizing safety will have only a marginal impact on the election. "The job of a national political party is to identify local issues in a national way," said a Republican spokesman.

Representatives of other issues were indicted during the Amateur Free Agent Draft when a spokesman for Peter Ueberroch, the major league baseball commissioner, announced that a special selection had been granted to the New York Yankees and that they had picked G. Fredrick Will, an infielder from Champaign, Illinois.

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### Notes About People

The invitation to a fund-raising event for Representative of the Central American peace plan has drawn up what it called a final version of a Central American peace plan but diplomats from the region said the revision appeared unlikely to resolve differences between Nicaragua and its neighbors.

The new plan was announced late Saturday at the end of a two-day negotiating session.

Foreign ministers from the nations comprising the Contadora group—Mexico, Colombia, Venezuela and Panama—attended the meeting.

They were joined by foreign ministers from the Contadora support group—Argentina, Brazil, Peru and Uruguay—as well as from the Central American nations of Nicaragua, El Salvador, Guatemala, Honduras and Costa Rica.

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## Envoys Cool To Latest Offer From Contadora

By Tom Brown

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## Swiftly Addictive Crack Strikes High in U.S. Business

By Peter Kacer

NEW YORK — The business world's first heard of crack last January, from a colleague at work.

"I don't want to do anything crazy," the systems analyst, who works for a major corporation in lower Manhattan, confessed to his friend.

"It's not anything crazy," the friend replied. "It's just cocaine."

By March, the junior executive, who is 28, was snorting up to 400 a week of the potent, highly addictive form of cocaine. He had lost 20 pounds and his career was foundering.

The story, told by one of a growing number of people who have entered drug treatment programs for addiction to crack, illustrates an aspect of a crack epidemic in the New York area that has gone largely unnoticed, drug experts say.

The first data on crack addicts indicate that many are professional people with well-paid jobs, and that the majority are adults, not teen-agers.

According to drug-treatment specialists and users and dealers of the drug, many of the college-educated and professional people who are smoking crack have turned cocaine and marijuana on cocaine for years. And for years they dismissed the warnings about these drugs as exaggerated.

But as crack has spread through the city and suburbs in the last six weeks of the year, a growing number of crack addicts from the upper middle class are surprised to find themselves suffering a severe addiction to crack.

### There is a gross distortion about crack, that it is just a teen-age problem and that it is a problem of the poor.

—Arnold Washon, director of research for the National Cocaine Hotline

About 17 percent of teen-aged cocaine users who called said they were using crack. The study said 24 percent of the callers reported incomes of \$25,000 or more.

Mr. Washon said the study provided only a preliminary outline of who was using crack, and was limited to those people who had reached out for help. It showed that many users still relied on the powdered form of cocaine. And he said further studies would probably indicate that teen-agers make up considerably more than 5 percent of crack users.

There is a gross distortion about crack, that it is just a teen-age problem and that it is a problem of the poor," said Arnold Washon, director of research for the National Cocaine Hotline, at Fair Oaks Hospital in Summit, New Jersey.

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### Bush Tells of Secret War Order

Washington Post Service

WASHINGTON — Vice President George Bush has disclosed that President Ronald Reagan signed a top-secret directive two months ago defining narcotics trafficking as an act of international terrorism, and allowing stepped-up use of the armed forces to fight the traffic.

On Saturday, while in Houston to meet with law officials, Mr. Bush took the unusual step of disclosing the directive. His purpose, he said, was to make "every American understand a very real link between drugs and terrorism."

Mr. Bush renewed U.S. charges that the Sandinista government in Nicaragua used money from illegal drug trade to finance international terrorism, and he accused President Fidel Castro of Cuba of harboring and financing international terrorism.

Last year, the Congress directed the U.S. armed forces to take an expanded role in the war against drugs. The president's agencywide directive "will officially authorize that use on a more formal basis and should increase the role of the U.S. military in the war against drugs."

The National Security Directive linking drugs and terrorism was signed April 8.

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### Haiti Sets Presidential Election for '87

By William R. Long

PORT-AU-PRINCE, Haiti — The military-led government, under the pressure of widespread political protests, has announced an electoral calendar that will culminate in presidential elections in November 1987.

Lieutenant General Henri Namphy, head of the ruling National Government Council, said that he would be a candidate for president.

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### Nicaragua: Reagan to Assert Soviet Ships Arms

(Continued from Page 1)

what they have left to mount a major campaign. But the problem is that the supplies are already dwindling in certain categories, and without new aid there is no way they can continue such a campaign past sometime in July.

They also said that the Sandinistas had carried out an unprovoked attack on Misquito Indian villages in March that forced about 11,000 to flee.

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### Evangelist Wins Tax Break

Washington Post Service

WASHINGTON — The Baltimore field office of the Internal Revenue Service has granted tax-exempt status to the Freedom Council, the organization that Pat Robertson, a television evangelist, has been using to get Christian evangelicals involved in politics.

The ruling, made May 28, means that donors to the Freedom Council can deduct their contributions from their taxable income. The council played a critical role in recruiting Republican precinct delegates for the Aug. 5 Michigan primary election.

Mark Nuttle, who is the head of Mr. Robertson's Committee for Freedom, a political committee, and has worked closely with the Freedom Council, said "I knew we were going to get 'tax-deductible status.'"

"We plan to continue the original purpose of the Freedom Council, which is to educate people on a broad range of issues and further the democratic process."

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### Government Foes in Belize Criticize Growing U.S. Role

Agence France Press

BELIZE CITY, Belize — Opposition politicians have complained that Belize's political independence is being threatened by the growth of U.S. influence.

Speakers at a meeting Saturday organized by the Society for the Promotion of Education and Research said U.S. involvement in Belize had increased substantially, mainly through an accord signed last year between the government of Belize and the U.S. Agency for International Development.

The governing United Democratic Party says the U.S. presence is good for the nation's economy. Since 1983, the Agency for International Development has provided about \$80 million to public and private sectors in loans and grants.

### 3 Germans Remain Captive

Agence France Press

MANAGUA, Nicaragua — A plan designed to free eight West Germans held by the rebels in Nicaragua has been rejected, amid conflicting reports on who was to blame. Reuters reported from Managua.

Enrique Bonifacio, military chief of the Nicaraguan Democratic Force rebel group told a Costa Rican radio station Saturday that Nicaragua is blocking the release, contending that Sandinista troops had attacked the site where it was to take place on Friday.

The West Germans captives, four men and four women, were seized May 17 in Jacinto Ben, 150 miles (240 kilometers) southeast of Managua, while working as volunteers on construction projects.

INTERNATIONAL POSITIONS

You will find below a listing of job positions published last Thursday under the rubric International Positions.

TITLE	SALARY	EMPLOYER
PRESIDENT AND C.E.O.	Good	Consultants, P.O. Box 24417, Lyndhurst, Ohio, 44124, U.S.A.
EXPORT MANAGER		A large multinational company.
GENERAL MANAGER		U.S. Operation of a German Company (organic chemicals & consumer goods)
PORTFOLIO MANAGER	Good	Merrill Lynch
CONCEPTUAL COMMUNICATORS		Bull

If you haven't seen last week's INTERNATIONAL POSITIONS rubric, please ask for a free copy: Max Farnero, INTERNATIONAL HERALD TRIBUNE, 23221 Maullville Cadeux, France. Tel (1) 46.37.93.41, Telex 73395





## At Radio Marti's Prodding, The Cuban Monolith Cracks

By George F. Will

WASHINGTON — One cool morning recently, Jay Mallin was calling a reporter that the radio station for which Mallin works as news director cannot be — because of the "blatant" success of escapes from Cuba.

Granted, Radio Marti's weather reports, broadcast from Washington and transmitted from Florida, are more detailed than reports broadcast by Cuban government radio. Marti's long-term forecasts and information on tides are closely listened to, especially by persons — often of military draft age — who are considering dangerous floats to freedom on inner-tube rafts.

Granted, also, such people are especially apt to listen to Marti, the U.S. government Spanish-language station now beginning its second year of broadcasting in Cuba. But Marti is prevented by its charter, as well as the wisdom of its administrators, from incitements.

Mr. Mallin allows no name-calling. Fidel Castro is referred to as the leader. Mr. Mallin has had Mr. Castro on his mind for many years. Born in 1927 in New York into an American family with two generations of roots in Cuba, Mr. Mallin was working for Time magazine during the revolution. During Mr. Castro's victory march to Havana in January 1959, the lead car carried Mr. Castro, the second car his security people, the third car the Time-Life contingent.

Ernesto Betancourt, Marti's director, supported the revolution in the 1950s and represented Castro's movement in Washington in 1957-1958. He left Cuba in 1960, when Castro's anti-democratic intentions became clear.

Marti's impact is measured anecdotally, but by lots of anecdotes. There are interviews with travelers from Cuba, surveys of emigrants — often arriving through third countries — and correspondence from Cuba to relatives in the United States. Mail to and from Cuba is measured in tons. Thirty thousand telephone calls are attempted daily from Miami and 6,000 get through.

Mr. Castro does not attempt madman jamming of Marti, partly because of the cost. Cuba is a mendicant nation, selling its young men as soldiers in exchange for Soviet subsidies. Jamming is expensive. The Soviet Union pays about \$400 million a year to join U.S. non-English broadcasts to the Soviet Union. Such U.S. transmissions cost just \$25 million. All Soviet jamming involves 15,000 technicians at 2,000 jamming stations, costing about \$1 billion annually.

Aside from the cost, Mr. Castro's vanity causes him to avoid full-scale jamming, which would affirm Marti's appeal. Marti, with 80 correspondents, costs just \$10 million annually, less than one advanced fighter plane. Marti is a magnificently cost-effective weapon.

Cubans are ravenous for news from Angola and Ethiopia, where 400,000 Cubans (half of them civilians) have served Soviet purposes. Mr. Castro's worship of Soviet technology caused a four-day stunned silence in the Cuban press after Chernobyl. Marti instantly broadcast not only the news, but a nuclear glossary, and interviews with Cuban scientists about a nuclear plant Soviet technicians are building in Cuba.

Because Cuba is governed by "scientific socialism," there are, by definition, no crimes or other serious defects. However, in the year that Marti has been broadcasting about developments in Cuba, Cuban programming has been giving more attention to crimes and to problems like AIDS — which, until recently, the Cuban authorities had said did not exist there.

From Marti, Cubans learned of the massacre of dozens of young people when planes and gunboats sank a pleasure boat sailing toward freedom. Marti told Cubans about the attempted kidnapping of a Cuban defector by Cuban Embassy officials in Madrid.

Marti has reported the shambles of Cuba's sugar production: Cuba is reduced to buying sugar in the world market. Then it sells that, for less than it paid for it, to East Bloc nations to pay for Soviet subsidies.

An especially popular program on Marti is "Family Bridge," on which Cubans and Americans call Marti toll-free and give personal messages that are beamed to Cuba. "Aunt Marti's opinion went well, and Jose is engaged." But even more popular than the broadcast of jazz, "Top 40" rock 'n' roll and baseball is a soap opera about "Esmeralda."

She — Esmeralda, that is — is one reason Cuban broadcasting is improving. Totalitarian regimes police everything and extinguish the freedom not to think about politics. The growth of Marti's audience for its nonpolitical programming has forced Cuban broadcasting to lighten up. There is now more programming for the restless young, and more first-run movies in prime time.

This change is a reluctant concession to consumer sovereignty. Any acknowledgment, however small and wary, of the power and claims of popular desire subverts the central pillar of totalitarianism, the tenet that the masses should be utterly passive and plastic to the power of the state.

So the voices beamed from the studios in the building at the foot of Capitol Hill have produced in Cuba a small stirring, something like a crocus sprouting through a crack in concrete. And life, however frail, has a way of triumphing in time, even over stone.

Washington Post Writers Group.



### Vidal, Salfire and Israel

Regarding "Vidal's Injurious Equation: Friends of Israel = Treitors" (May 22) by William Safire:

One sad fact about Gore Vidal and Norman Podhoretz is that neither is assimilated. Mr. Vidal is not assimilated to the American tradition and legal code of freedom of opinion and expression. Nor is he assimilated to the Christian-Augustinian tradition of freedom of the individual — i.e., no collective guilt.

The Podhoretz and Commentary magazine are not yet assimilated to the nuclear age — with its new imperatives for restraint of both word and deed; its imperative to degrade the status of the military impulses of mankind. Mr. Vidal takes us back to the savage part of tribal warfare; the Podhoretzes would push us into a mindless future in which a spear is equated with a megaton nuclear weapon. God save us from the mentalities of both idiot camps.

JOSEPH LEWIN.

Geneva. The type of vicious argument by Gore Vidal is strangely reminiscent of

the reasoning of fascist types throughout Jewish history, from the Spanish Inquisition to Nazi Germany — namely, "don't trust the Jew, he will never be a loyal citizen." I have never heard of a Jew using this type of argument — and to boot, a supposed "liberal."

Alfred Lilienthal's strange letter to the editor ("Of Judaism and Zionism," May 22) added icing to this cocktail of misery. This gentleman, representing less than 1 percent of American Jewish thinking, applauds Pope John Paul II for not recognizing the state of Israel.

American Jewish opinion is, generally speaking, much more nuanced. American Jews are as loyal to America as are the Italian-Americans, the German-Americans, etc. The United States is the "wife" of a vast majority of U.S. Jews — to whom you owe love, respect and allegiance, and with whom you live. Israel is the "mother" to the vast majority — a "mother" whom you cherish, you aid emotionally and financially, but you don't live with her forever.

I firmly believe that American Jewry is leery of continuing to pour annuities into Israel and, of course, the rest of the Middle East, and that American Jews

### LETTERS TO THE EDITOR

will be very receptive to a serious peace effort on the part of Israel.

CHARLES STARR.

Nice.

William Safire calls Israel a democracy but a democracy seems nearer the mark. Should Israel define its borders not by international agreement but by consulting the Old Testament? Israel calls adjacent regions by Old Testament names, not by their modern names.

Therefore, the loyalty of U.S. citizens who are Jewish will be forever argued, to little avail. An American can be loyal to any religion, but cannot be loyal to a country other than America if he or she expects to continue being an American.

EDGAR S. SALLICH.

Brion, Switzerland.

The views of Alfred Lilienthal are wrong in one major respect. The bulk of diaspora Jewry is, regrettably, not Zionist. Supporting Israel with money and letters to Congress is not what Zionism is all about. Ninety percent of American Jews proclaim: "I am an American first, a Jew second (a few second ...)." Such an assertion is the an-

## The Day the Yam Spoke: An Old Yarn From Ghana

ONCE, long, long ago near the seashore in the West African country we now call Ghana, a farmer went into his garden to dig up a yam. As the farmer chopped his hoe into the ground, the yam said, "You never weeded me, you never took care of me, now you dig me up. Go away and leave me alone!"

MEANWHILE

was talking, but there was only the dog. "Did you say something?" he asked. "No," said the dog. "It was the yam."

"Wow-ee!" said the farmer. "The yam talked, and then you talked!" He was so scared that he decided to beat the dog. Loss of times, when people are scared, they have to hit something.

The farmer took his knife and cut a stick from a tree. The stick said, "Put me down!" The farmer dropped the stick but when it fell on a rock, the rock said, "Take that thing off me!"

"Wow-ee!" said the farmer. And he ran off down the road to the village.

He met a fisherman carrying a big fish. "What's the rush?" said the fisherman. "Wow-ee!" said the farmer. "The yam said, 'Leave me alone!' Then the dog said, 'It was the yam.' Then the stick said, 'Put me down!' Then the rock said, 'Take that thing off me!'"

"Is that all?" said the fisherman. "Wow-ee!" said the farmer and the fisherman. They ran down the road to-

gether. They ran into a wood carver carrying a mask he had carved. "Where are you going in such a rush?" the wood carver said. The farmer began to talk. "The yam said, 'Leave me alone!' Then the dog said, 'It was the yam.' Then the stick said, 'Put me down!' Then the rock said, 'Take that thing off me!'"

The fisherman went on, "Then the fish said, 'Is that all?'"

"That's nothing," said the wood carver, "nothing at all." "Oh, yes it is," said the wood carver.

"Wow-ee!" said the farmer. The fisherman and the wood carver. And they ran into the village until they came to the king's house.

The king was sitting in front of his house on his royal stool, and he asked them why they were running.

Puffing and panting, the farmer said, "The yam said, 'Leave me alone!' The stick said, 'Put me down!' The rock said, 'Take that thing off me!'"

The fisherman said, "The fish said, 'Is that all?'" "The wood carver said, 'The mask said, 'Yes it is.'"

The king heard them out, but at the end he was angry. "This is nothing but a wild story," he said. "Go back to your work before I punish you."

The men went away, and the king said to himself, "What nonsense!"

"Yes," said his stool. "Who ever heard of a talking yam?"

South-North News Service.

due to them after spending a lifetime working in the United States.

Most Social Security recipients live in Western Europe not for pleasure but for serious family reasons. They suffer from the huge foreign-trade deficit and are among the neediest of all those there.

These U.S. retirees are very interested in whether anybody in the Department of Health and Human Services is aware of our plight. Are there remedies?

OTON AMBROZ.

Trieste, Italy.

Aid in Appropriate Places

The U.S. position at the UN General Assembly's special session on Africa's economic crisis, to the effect that the United States cannot increase its aid to Africa, should not be taken literally.

Extraordinary appropriations can always be requested from Congress for military aid to Jonas Savimbi; and in case Zaire or even Morocco or Tunisia can somehow be persuaded to attack Libya or Ethiopia, military aid would be forthcoming, regardless of cost.

MOHAMMAD MALICK.

Dakar, Senegal.

### U.S. Retirees in Europe

Thousands of Social Security recipients in Italy and in Western Europe are losing every month, because of the dollar's decline, up to 25 percent of what is

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# PERSONAL INVESTING

## FOCUS

### Goldbugs Eye Soviet Sales With Caution

**P**UZZLED that a weaker dollar and somewhat healthier demand have failed to stir gold prices, a number of analysts have identified yet another factor inhibiting a rally. This time the suspected culprit is the Soviet Union.

Under pressure to maintain hard currency earnings in the face of declining oil and natural gas prices, gold specialists say that sales by the Soviet Union, the second-largest gold producer after South Africa, have been growing steadily for the past year. And some fear that the trend may accelerate later in the year if the Chernobyl nuclear accident damaged the Russian grain harvest, though there is no evidence yet of significant harm to crops.

"They just might eventually need cash to pay for food," says Alan Davidson, a London metals analyst for Shearson Lehman Brothers. "A lot of heavy producer selling could kill off any hopes of a rally."

In many ways, concern about Soviet activity is heightened by the mystery surrounding its transactions. In the 1970s, traders joked that they could always spot the Russians in the market; they were selling at the worst prices and buying back at the best. Now, say observers, the Soviets are more aware of their influence. Accordingly, they have grown more sophisticated at disguising their dealings.

**U**SING billion dealers in London and New York and big banks in Zurich and Frankfurt as middlemen, the Russians are believed to simultaneously buy and sell in a variety of markets to throw traders off the scent. "The Russians let you see what they want you to see," says a gold specialist at a U.S. firm that deals with the Soviet Union.

Nevertheless, data compiled by a number of investment firms in the United States and Europe suggest that the Russians became heavy sellers in 1985 after income from oil and gas exports declined sharply. The current volume of sales is estimated at the highest level since the 1970s, when a string of poor harvests forced Moscow to reach deep into its pockets to pay for huge amounts of grain from the West.

Michael Coulson, a gold specialist with Phillips & Drew in London, estimates that the Russians sold about 275 metric tons last year and expects them to sell another 350 tons this year. Verpoese Varkki, director of metals research at James Sinclair & Co. in Luxembourg, says his firm last month upgraded its projected increase in sales by 30 percent for 1986 to 80 metric tons.

To be sure, low inflation and attractive returns on stocks and bonds are reasons enough to explain why gold has been trapped in a narrow range of \$330 and \$360 an ounce since January. But in a market where rallies are sometimes measured in cents, Russian intentions have taken on a new significance. "If (the Soviets) were to sell 150 tons less this year, it would have a marked effect on the gold price," says Mr. Coulson.

**I**NDEED, after finding a new level of support above \$300 an ounce last year, some observers were betting on a modest rally this year. Conventional wisdom holds that the price of gold moves inversely to the dollar, and the U.S. currency's plunge has built up expectations in the market.

Moreover, demand is rising elsewhere. Central banks now are net purchasers of gold. And Japan is thought to be a big buyer this year because of plans for a commemorative gold coin honoring Emperor Hirohito's 60th anniversary. Even purchases by the jewelry industry, a mainstay in the market, are expected to grow by about 5 percent this year to more than 30 million ounces.

Experts believe that the fundamentals still may triumph, although few see gold getting much beyond \$360 during the summer. Talk of touching \$400 toward the end of the year is gaining a wider audience, but the Soviet response to the price rise is a key factor. "If the Russians can resist the price increase, there's a chance," Mr. Coulson says. "But if we get up to \$360 or \$380 and they suddenly dump 50 tons, it will have a major psychological effect on the market."

John Meehan

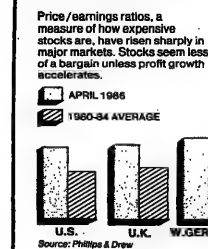
#### Bearish Influence Soviet gold sales 1980-86

Year	Metric tons	Value in billions of dollars
1980	90	\$1.76
1981	280	4.14
1982	207	2.46
1983	93	1.27
1984	205	2.37
1985 (e)	275	2.80
1986 (e)	350	3.80

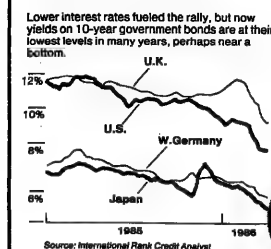
Source: Phillips & Drew

## The Global Rally's Rocky Transition

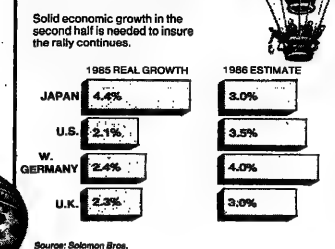
### 1. With stock values at lofty levels...



### 2. And the big drop in rates past...



### 3. Investors pin their hopes on growth



Now that some investment themes are wearing thin, the markets are changing their focus.

All is for the best in the best of possible worlds. Dr. Pangloss in Voltaire's "Candide."

By William G. McBride

**S**URVEYING the investment climate recently, Henry B.W. de Vries, president of Kleinwort Benson's Transatlantic Fund, picked out the list of positives: fading inflation, cheap energy, reasonable wage settlements, lower interest rates and generally stable political situations in key economies. "Sometimes I think it's such a perfect situation that something must be wrong," he says.

Aside from such occasional bouts of skepticism, Mr. de Vries and most other money managers are betting that the global surge in stock markets is far from over. But the transition to the next stage of the rally could be rocky. Already, major markets have gone through downturns in the last six months, though investment professionals mostly rate these setbacks as healthy corrections. Borrowing Coors Co.'s old advertising slogan, Gilbert de Botton of Global Asset Management, says, "This is the pause that refreshes."

The problem for investors is that the themes that have dominated the markets during the past 18

months have grown tired. Even though the downward trend in inflation rates, the dollar and interest rates may continue over the next few months, much of the good news is "already largely reflected" in stock prices, says Bernard Ratray, a director at American Express Asset Management. The focus in the rally's next phase will be on targeting which companies will cash in on the growth these trends promise.

Since the beginning of the rally in 1982, stock prices have fished higher prices largely because lower inflation and interest rates made company earnings look increasingly attractive, even if they were not rising particularly quickly. In the United States, interest rates and inflation rates came down so dramatically that stock prices charged ahead even when corporate profits limped along. The total return on the Standard & Poor's 500 Index was about 52 percent last year, while the profits of the companies that make up the index were down 11 percent.

Many money managers expect a further round of interest rate cuts this summer, and some argue that the last reductions have yet to be fully reflected in stock prices. But as interest rates move to near 20-year lows in major economies and stock prices hover near record highs, investors can be expected to look more intently at whether the benefits of cheap energy and lower interest rates are showing up in accelerated profit growth, especially in the United States.

"Ultimately, stock prices are driven by earnings and dividend expectations," says Mr. Ratray. "The message of the market has been, and still is, that there's a lot of earnings lying ahead over many years." In the near term, however, there could be unpleasant surprises. "Where the earnings will not be delivered, there will be disappointments," he acknowledges.

So far, economic statistics suggest what Glenn

Wellman, managing director of Alliance Capital Management International, calls "reasonable, rather than good growth," the best kind for avoiding rises in interest rates and inflation. The key is the expected acceleration of the U.S. economy in the second half, which has yet to develop convincingly. "I don't worry yet," says Stephen Butt, head of asset management for Morgan Stanley Asset Management in London. "But if we don't see that pickup later this year, that would be really worrying."

Even if the growth develops, the benefits, as always, will be distributed unevenly. Corporate profit fore-

Continued On Page 12



Shoppers in Jashin Denki store in Tokyo. The consumer boom is on.

## When the Blind Lead the Blind

Here are some stocks for the true speculator.

By Janice Horowitz

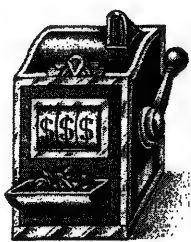
**W**HEN Chicken Hawk Inc., a company based in Salt Lake City, Utah, hit the market with a \$400,000 initial public offering in April last year, it seemed like most other penny stock issues. It was priced at a mere 50 cents a unit, each consisting of one common share of stock and a warrant to buy another — the kind of package common in a market that thrives on cheap stocks.

But where other companies market themselves to the public by stressing newness or the viability of a product they hope to develop, Chicken Hawk has no such claims. In fact, it did not appear to have any business. Its prospectus stated that the company intended "to take advantage of business opportunities which the management believes arise from time to time."

This cryptic description may be unusual in the new issues market, but it is hardly unique. Chicken Hawk is known in the U.S. securities industry as a "blind pool," an initial public stock offering in which a company has little or no assets when it goes public. Chicken Hawk's bid price has floated up to more than \$2 a unit.

The public's appetite for these low-priced equities is on the rise. "Blind pools are the hot thing right now," says Stewart Winograd, managing editor of the National OTC Stock Journal, a Denver-based newspaper that tracks the over-the-counter market. "They're springing up everywhere."

Last year 105 blind pools applied to the Securities and Exchange Commission for permission to go public, hoping to raise a total of \$513 million, according to the Institute for Econometric Research, a Fort Lauderdale, Florida newsletter publisher that tracks the market. In the first three months of 1986, the institute says, 154 pools filed with the SEC. So far, 10 have



Charles Waller

gone public, compared with 21 in all of 1985.

The most common blind pool today is set up as a shell company with the stated purpose of acquiring private companies. Rarely do they go public at more than \$5 a share. Promoters tend to hype them, sometimes by plugging the expertise of the management in a certain industry. The problem is that many blind pools have very low initial capitalization, ranging from a few thousand to no more than half a million dollars, making it difficult to acquire much.

"Let's be realistic," says one attorney who works closely with blind pools. "\$50,000 is not enough capital to do anything."

Another scenario is a reverse acquisition in which a privately held company, wanting to avoid the time and expense of an SEC registration, will take over a blind pool to obtain its stock market listing. Dynavex, which has an oil and gas equipment division and a medical products division, was a two-month-old, privately held corporation when it merged with a blind pool, Prime Properties. The pool came out in July of last year at 2 cents a unit, consisting of one share of common stock and two warrants to purchase additional shares, totaling a \$75,000 initial public offering. Dynavex merged with it in September.

"Doing it this way cost \$25,000 instead of over \$100,000," says Scott Hamilton, chairman of Dynavex.

Mr. Hamilton contends that Dynavex has \$6 million in assets and that by June 30, it will be generating earnings of 50 cents to 75 cents a share on revenues of \$3.5 million. It currently sells for 18 cents a share bid, many blind pools go sour, but we have 35 full-time employees, and

Continued On Page 15

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# Markets at Midyear: A Rocky Transition

Continued From Page 11

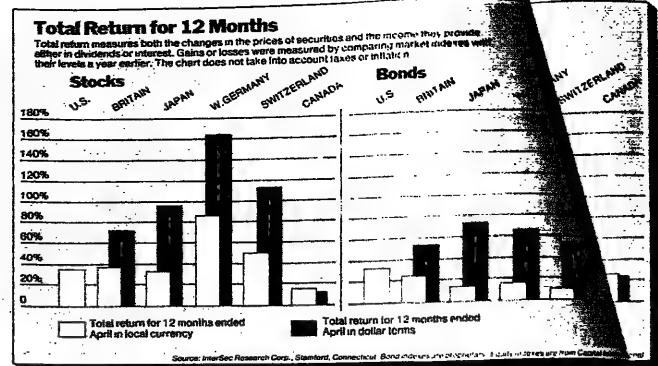
costs for Japan and West Germany are being revised downward for this year because of the appreciation of the yen and Deutsche mark, which restrain the earnings of their exporters. The profits of major Japanese companies could be flat this year and rise 10 percent next year, according to Phillips, Drew, the London brokerage. In West Germany, earnings growth of the key listed companies is expected to be around 9 percent in 1987, slowing to 8 percent in 1987.

U.S. corporate profits for this year are not likely to show spectacular gains either. "We are close to a stronger economy and earnings-driven market," says John D. Connolly, investment strategist at Dean Witter Reynolds, "but it may take another quarter or more." Byron Wien, chief U.S. strategist for Morgan Stanley, recently trimmed his estimates for earnings growth for the S&P 500 companies to 16.50 a share from \$17.50. For 1987, he has shaved his estimates of the year-to-year increase in corporate profits to 6.1 percent from 8.6 percent.

Beneath those figures lie further disparities. Mr. de Vries says that Japanese companies whose business is primarily domestic could manage to post earnings increases averaging 10 percent, while the export sector may see profits drop as much as 20 percent or 50 percent. On Wall Street, the export companies in the S&P 500 may show a drop in earnings of as much as 33 percent this year from 1985, Mr. Wien estimates, while the financial stocks' profits may be up 10 percent.

The cross-currents make it harder to say which of the major markets will perform best in the months ahead. Dollar-based investors who focus on major U.S. stocks probably still stand to make some currency gains on the dollar's tendency to weaken. But whether those markets will outperform Wall Street is "going to be a very close call," says Mr. de Vries.

One of the major themes in the U.S. and Japanese markets is consumer-oriented stocks. In this view, the drop in oil prices and interest rates has had the effect of a massive tax break, lifting disposable income worldwide. "The



Henry B.W. de Vries

thing you want to bet on is the consumer," says Robert A. Simms, chairman of Simms Capital Management. Bolstering that strategy is the tax revisions moving through Congress, which are seen by several analysts as likely to add to U.S. consumer spending.

Among U.S. stocks, this translates into an emphasis on retailers, leisure companies, food and beverage companies and automobiles. Recent recommendations by Dean Witter included Dayton Hudson Corp., the department store chain, and RJR Nabisco, Sara Lee Corp. and Quaker Oats Co., all major forms of the food and beverage business. Among autos, Ford Motor Co. and Chrysler Corp. are mentioned frequently.

If clearer signs of a U.S. economic pickup emerge, strategists can be expected to move more money into such cyclical industries such as chemicals, machine tools and technology. Many of these companies stand to benefit from a weaker dollar. Already, some market watchers see selective opportunities in these recovery-sensitive stocks. Mr. Wien re-

cently added Monsanto Co. to Morgan Stanley's recommended list. The real bottom-line for such a move, though, will be the technology stocks, says Mr. Wellman. While the weaker dollar has raised the level of confidence for Wall Street, the yen's rise has enlivened the debate over Tokyo's prospects. Some portfolio managers already convinced that the Japanese market is too pricey, have dumped shares, especially the export stocks.

Some managers feel that the currency factor is overdone. "We think both the Japanese and foreigners are paranoid about the impact of the yen," says Walter Oechel, chief investment officer of Putnam International. Investors still can find good stocks if they look for companies that dominate their industry worldwide, he says. One example, he says, is Kyocera Corp., a maker of ceramic integrated circuit packages.

Specialty retailers continue to enjoy favor and not just as alternatives to export stocks. Christopher M. Michelson of Salomon Brothers says that Japanese consumers feel flush thanks to higher wages and a near-zero inflation rate. "There's tremendous demand for fashion clothes and consumer electronics," he says. He cited Johnson Dental Co., an electronics chain, as an example of the kinds of companies that are profiting from Japan's consumer boom.

But it is Europe that offers the best example of the problems facing investors in adjusting strategies. "We've shifted gears somewhat," says Mr. Oechel. Last year, Putnam emphasized cyclical stocks such as Volkswagen AG in West Germany, Michelin in France and Montedison SpA in Italy, but now "they're pretty much laid their day," he says. Some of these stocks had enjoyed a windfall from the strong dollar.

While Mr. Oechel is on the lookout for "more predictable

growth situations," he acknowledges that "they're hard to find." Mr. Wellman of Allstate, who feels many European stocks still offer value on a cash-flow basis, has turned up prospects among Dutch publishing companies, such as VNU and Wolters-Slooten M. Butts, who calls Amsterdam the most undervalued market in Europe, holds Unilever, the consumer giant. Amro, a major bank and Broeders, an international construction and property company.

Speculation about elections in Japan, Britain and West Germany may bring on further bouts of nervousness this summer. In August, Mr. de Botton notes, investors may begin to adjust their portfolios on the first half's corporate results start to roll in. But money managers say such short-term worries should not obscure the long-term positives. Few would complain about modest growth with low inflation and interest rates. Looking beyond the current scene, says Mr. de Vries, "it's hard to be bearish."

## Behind the Jitters In Bond Markets

THE fortunes of equity and bond markets have been linked through much of the rally. So it is not surprising to see world bond markets going through a period of uncertainty that mirrors the shakiness in stock markets.

Like stocks, bonds advanced sharply through much of the rally. In the period ending May 23, total return in dollars for U.S. government bonds was about 7.5 percent. For Deutsche mark bonds, 10.4 percent and for yen bonds an impressive 23 percent. Most professional investors believe that non-dollar bonds in particular have more gains ahead as interest rates fall. But sitting on such profits, it is little wonder that the markets have been bad-news vulnerable.

One lull came after the May economic summit in Tokyo, when a widely expected round of world interest rate cuts failed to materialize. Instead, the bond market got caught in the political cross-fire over the yen-dollar rate. U.S. officials were widely perceived as letting the dollar fall against the yen to pressure Tokyo into interest rate cuts and economic stimulation. In turn, fears arose that the dollar's fall would reduce the Japanese appetite for U.S. government bonds, driving up rates.

In fact, the Japanese took up a healthy portion of U.S. securities and the dollar rebounded. But fresh anxieties arose as U.S. economic indicators gave vague signals of a second-half rebound,

which could drive up credit demand and interest rates. Then, Federal Reserve Chairman Paul A. Volcker resurrected the inflation issue, warning that the favorable effects of lower oil prices could not continue indefinitely and that a weaker dollar eventually would put upward pressure on U.S. prices. Bonds slumped.

Despite resistance in Tokyo and Bonn, money managers still believe that interest rates there will travel lower in the next few months and that the Fed will follow. "There's still scope for rates to fall," affirms Stephen Butt of Morgan Stanley Asset Management in London. Inflation is virtually nil in both Japan and West Germany, leaving real interest rates high, and their economies still are somewhat sluggish.

But the timing is less certain now. "Our feeling is that the Japanese will not cut prior to the elections in July," says Calvin Puckett of Simms Capital Management in New York. R. Thomas, an economist at W. Greenwell & Co. in London, notes that Bonn also feels restrained because the Deutsche mark is at the bottom of its permissible level in the European Monetary System.

It is possible, says Mr. Thomas, that Britain may lead the way to lower rates. In any event, he says, "it's very difficult to see the position of the dollar, for the U.S. to lead any reduction." A sharp sell-off of the dollar could feed U.S. inflation fears, and complicate the Fed's credit policy.

William G. McBride

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## CURRENCIES

# Betting on the Canadian Dollar's Comeback

A policy shift has changed the market's view.

By Bruce Hager

FOR years it was dismissed as the "North American peso" and, as if living up to its image, it headed south against the U.S. dollar when most currencies surged last autumn. Yet the sleepy Canadian dollar has suddenly begun to perform, and the consensus among currency experts is for further appreciation over the next few months.

After slipping to a historic low of 69 cents to the U.S. dollar last March, the Canadian currency has climbed to about 72 cents. Most analysts believe that it finally has entered a period of prolonged stability. Some are even predicting that it could reach 78 cents or higher by the end of the year.

The investment community has been quick to take note. Peter Brandt, head of Pacific Trading Co., a Niwawa, Minnesota firm that specializes in currency futures, said that he was bullish for 10 years. "Now's the first time technically that can be made for going long," Mr. Brandt says. "My indications show that there's a very strong chance of going into the low 80s."

And on the Toronto Stock Exchange, which has underperformed almost all of the world's bourses, analysts are seeing net foreign investment for the first time since 1980. Many investors reckon that Canadian shares are cheap relative to other markets because of the undervalued dollar.

American investors are traditionally big buyers, and "if the Canadian dollar goes up, and the U.S. dollar has stabilized, then fund managers in Europe will start to look at the Canadian market a little more closely," says Subodh Kumar, chief portfolio strategist for Wood Gundy, the big Toronto securities firm.

Moreover, experts believe that the Bank of Canada, unfettered by currency concerns, will have more maneuverability to lower interest rates. This prospect has not only stirred the stock market, but also has increased interest in Canadian bonds.

Michael R. Rosenberg, head of international fixed income research at Merrill Lynch, is selling clients to overweight global bond portfolios in favor of Canadian dollar instruments. Even though the Canadian dollar bonds represent only 3 percent to 5 percent of the capitalization of the world bond market, he suggests an allocation of 15 percent.

At first glance, the Canadian dollar seems an unlikely candidate for such attention. After trading at a premium of \$1.04 in 1975, it trended lower for years, often depending on the talents of Canada's central bank to provide support through market interventions and higher interest rates. The Canadian dollar even missed out on the broad rally that carried the yen and European currencies higher after last September's decision by the Group of Five finance ministers to push down the value of the U.S. dollar.

Instead, it came under mounting pressure as oil prices declined. And with no evidence that Canadian authorities were raising the trend, the speculation gained momentum last February and March, forcing the dollar below 70 cents. Economists blamed the

crisis on a misperception in currency markets that the government was attempting to reflate the economy by massive and persistent devaluation.

It was not until the Bank of Canada widened the short-term interest rate spread with the United States to 300 basis points, or 5 percentage points, from 100 points did the dollar's tumble halt.

Although the spread has since narrowed to 200 points, the government's dramatic move demonstrated its commitment to maintain the dollar's stability. The government is willing to take the political pain of very high interest rates to support its currency, says John Grant, chief economist at Wood Gundy Inc.

Among the developments that have cheered the currency market since then has been the new budget adopted by the Progressive Conservative government of Prime Minister Brian Mulroney, which calls for a 16-percent reduction in the federal deficit, to 21.2 billion dollars, in the fiscal year that began April 1.

Experts have been talking about a turnaround since the autumn of 1984 when the Mulroney government took office with a promise of tighter fiscal control and a pledge to dismantle what were widely perceived as anti-business regulations imposed by the Liberal government of former Prime Minister Pierre Elliott Trudeau.

So far, Mr. Mulroney has deregulated the oil industry, while scrapping the National Energy Program that forced foreign oil companies to sell off huge chunks of their assets. He also has repealed the Foreign Investment Review Act, which had dramatically reduced capital inflows. But concern about the federal deficit — 30 percent higher than the U.S. deficit as a percentage of gross national product — has persisted.

After reducing the budget shortfall by only 11 percent in its first year in office, financial markets were questioning the government's resolve to cut costs, especially in light of Canada's steep 10-percent unemployment rate. But the latest budget "signaled that no one had to worry about Canada running loose in a fiscally irresponsible way," says Michael



Prime Minister Mulroney's budget signaled fiscal changes.

McCracken, president of Information Ltd., an economic research firm in Ottawa.

With budget doubts put to rest, the currency market now is focusing on other fundamentals. Most look encouraging. The long decline in commodity prices, especially oil, seems to be bottoming out. The economy grew at a robust 4.5 percent last year, making it the fastest-growing major industrialized nation. And while a slower pace is expected this year, the Canadian economy likely will continue to outpace most of its allies, including the United States. At the same time, inflation and interest rates have trended lower.

The Canadians also have managed to shrink their trade deficit to 2.6 billion dollars last year, a far cry

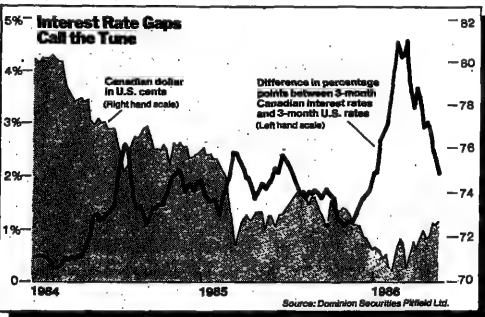
from the 8-billion-dollar shortfall that burdened the country in the 1970s. The improvement largely stems from its heavy trade volume with the United States, which takes in about 80 percent of Canada's exports. Canada's trade surplus with the United States reached 7.1 billion dollars last year.

NOT surprisingly, the Reagan administration, under pressure to reduce its own deficit problems, also would like to see a stronger Canadian dollar. Washington already has accused Canada of intentionally weakening its currency to gain an unfair trade advantage. Last month, the United States slapped a 35-percent tariff on selected Canadian lumber product imports. Canada has responded with protectionist measures of its own.

U.S. criticism has been particularly sharp since last month's decision at the Tokyo economic summit to expand the Group of Five to include Canada and Italy. In testimony before a Senate committee in late May, U.S. Treasury Secretary James A. Baker III said that part of the "price of admission" was that Canada would have to reduce its exchange-rate problems. His comments have further provoked the Canadian currency.

How long the dollar's newfound stability will last is open to debate. Given its erratic history, more than a few analysts are skeptical that the dollar's current strength can be sustained beyond a few months. Most major Canadian banks believe that the dollar's growth will be labored at best, allowing for a short-term surge of from 72 cents to 74 cents. "My judgment is that it's very close to its equilibrium," says Edward Neufeld, chief economist of the Royal Bank of Canada.

In the long run, some experts contend that the country's worrisome unemployment problem will inevitably outweigh the currency concern. "We are committed to creating jobs and lightening the deficit," says Richard Loepp, an economist at the Bank of Montreal. "The only way you can do that is by keeping monetary policy expansionary."



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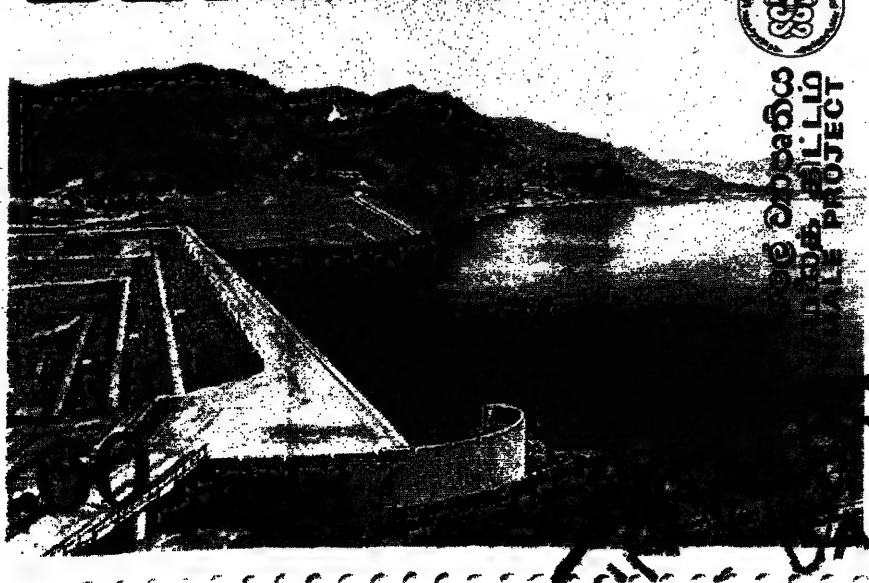
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Assets	Liabilities and shareholders' equity
Bank balances	1,554
Receivables	5,953
Investment and development properties	3,781
	11,290
Other receivables	391
Shares and participations	4,127
Machinery and equipment	883
Fixed-asset properties	947
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	4,558
	617
	910
	258
Total SEK	17,638
	17,638

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## BOURSES

## London's USM Pins Hopes on Smaller Stocks

By Lynne Curry

**I**T HAS been a tough year for Stuart MacDonald, As manager of Britannia USM Fund Ltd., an offshore fund that specializes in the upstart United States market, he has so far been unable to match the performance of the London Stock Exchange. In the first quarter of the year, the Financial Times All Share Index gained almost 20 percent, while his fund was up only 6.5 percent.

A spate of huge mergers and several large rights issues since the start of the year has shifted attention to the London Stock Exchange, somewhat dulling the speculative edge that is the USM's big drawing card. Trading volume has declined, new issues have been delayed and for most of the year, USM performance has lagged the FT Index.

Yet far from despondent, Mr. MacDonald is more optimistic than he has been in a long time. "There are only so many Distillers and Imperial groups that can be taken over," he says, referring to the big takeovers that dominated the market earlier in the year. "Attention is now likely to focus on the smaller companies at the bottom end of the market."

Indeed, now that they have digested the mergers and the big rights issues, investors once again are looking at the USM. And analysts expect interest will build in the next few weeks since underwriters traditionally introduce many new issues before the summer holidays in late July and August.

"Within the last month, the USM has begun to creep ahead of the main market," notes Marian MacBryde, an analyst at Hoare Goveaux Ltd. "It is running faster than the main market, which is looking much soggier."

The difference became obvious in May. The Deasman USM Price Index virtually held steady, slipping only 0.25 percent during the month and would have ended even better had some bright per-



AP Wire World

formers not graduated to the main market. By contrast, the FT Index fell 3.36 percent last month.

Of course the month was not without its disappointments. The highly publicized launch of Mrs. Fields Inc., the American chocolate chip cookie store operator, turned out to be a flop. About 29.7 million shares were offered at 140 pence a share, making the market capitalization about £210 million (\$3.14 million). Mrs. Fields still is the biggest company on the USM, even though 94 percent of the offering remains with the underwriters, J. Henry Schroder Wagg & Co., the British merchant bank, and Goldman Sachs International.

Some analysts suggested that the poor showing was symptomatic of the problems confronting the market this year. Indeed, on the day of offering, National Westminster Bank PLC made the biggest rights issue ever seen on the London market. But others blamed the poor response to Mrs. Fields on the issue's high price, skepticism about the wisdom of the company's plan to open shops outside the United States, its complicated tax picture and doubts about its high profit forecast. "There was an air of 'we need to be convinced,'" says Miss MacBryde.

Few analysts expect the failure of Mrs. Fields' flotation to curb the number of American companies seeking a USM listing, which is cheaper and requires less onerous financial reporting than that demanded

Manhattan pedestrians sample Mrs. Fields cookies. The offering flopped but the market outlook seems happy.

by the Securities and Exchange Commission in the United States. In fact, some American issues have done quite well. Fayer Systems Inc. of Burlington, Massachusetts, which manufactures electronic defense systems, has risen to 195 pence from 170 pence in slightly less than a year.

And some of the Britannia Fund's leading performers are attracting attention, including Blue Arrow PLC, a portland cement company; Apax Communications PLC, which provides communications tools to corporations; and Meadow Farm Products, which supplies meat to canteens.

Whether the USM rally can be extended is difficult to say. Analysts expect to see intense activity on the market in July, but they believe it will subside in October's depletion approach.

Some analysts see problems ahead for the USM with more brokers attracted to a revitalized main market after it switches over to a system of competing market makers, similar to the over-the-counter market in the United States. The result may be that some brokers will stop dealing in the less active stocks on the USM, which could harm the competitive pricing ability of the market.

Weld Durlacher Mordant & Co., a London market maker, has been told to halt trading in about 50 USM stocks. It believes that it will be unable to compete effectively with brokers who introduced the new issues to the market. The company stresses, however, that it still is dealing in about 60 USM stocks and has not abandoned those companies where there would only be one market maker left. "The market is still there before 'Big Bang,'" says Alistair Alcock, a partner in Phillips & Drew. "We don't know what will happen afterwards."

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## SOMETHING DIFFERENT

### Salvaging A Sale of Porcelain

By Terry Truoco

**I**T WAS dubbed the sale of the decade, or at the very least, the year. And by conventional wisdom, it should have had a huge impact on the market for 18th-century Chinese export porcelain. But the fierce bidding and spectacular prices that marked Christie's successful auction of the vast cargo of the Geldermalsen, a Dutch East India trading ship lost 134 years ago in the South China Sea and salvaged last year, have hardly stirred the market for the best Oriental Porcelain. "What those buyers are interested in is cargo from shipwrecks,"

indeed, it became obvious during the week-long Amsterdam sale that scores of collectors were more intent on buying objects for their historical value. Geldermalsen cargo was not especially distinguished, comprised of run-of-the-mill, mass-produced tableware, a staple of small antique shops that normally is priced as modestly as \$75 for a dinner plate. In contrast, plates from the salvaged ship were in the \$200 range. "We had no idea the sale would go the way it did, and I would not have had the courage to advise investors to buy," Mr. Sheel says.

Shipwreck collecting is still an embryonic field at best, and its investment potential is uncertain. The only recent sea cache prior to the Nanjing Cargo was the contents of a 17th-century Chinese junk. Its 22,000 pieces, mostly blue-and-white porcelain, sold rapidly at a first auction just three years ago, but drew much better prices at three subsequent auctions in 1984 and 1985.

Both the junk and the Geldermalsen were retrieved by Michael Hatcher, a one-time salvager of such glamorous World War II cargoes as rubber and tin, who by chance discovered the sunken Chinese junk laden with porcelain. Calling himself a commercial marine archaeologist, he now hopes to continue dredging up sunken treasures, despite thousands of chorus of scholars and historians who have condemned his methods, claiming historical data has been lost.

The structures of shipwreck collecting are fairly obvious. With a wreck retrieval goes a story. Dealers say that in recent weeks, interest has grown in pieces from the first Hatcher find. Many, such as London dealer David Howard,



An underglazed blue and gilt dish, circa 1750, that was sold in Amsterdam.

was not the all-time Chinese handcraft that drew collectors to Amsterdam. As London dealer Michael Cohen of Cohen & Pearce Oriental Porcelain points out, "What those buyers are interested in is cargo from shipwrecks."

Still, there is a lot of uncertainty about this new fringe market. Both shipwreck auctions failed to attract traditional Chinese export porcelain enthusiasts, most notably the Portuguese and Brazilians who are a market backbone and who favor flashy, bright-colored free-standing pieces as well as objects emblazoned with coats of arms. And with literally thousands of Hatcher finds now flooding the market, experts have doubts about the resale value.

"If people bought for souvenirs, those high prices are fine," says Leslie Roberts, who heads Sotheby's Chinese export porcelain department in New York. "But if they bought for investment purposes, the prices of the pieces will tend to be 150 years old before they catch up with purchase price."

already have taken orders from customers intent on getting something should the Hatcher crew find yet another ship.

Provenance also figures in. Shipwreck collectors can know precisely what craft their objects come from. In the Geldermalsen case, the history was impressive. And provenance influences price.

Still, there is a lot of uncertainty about this new fringe market. Both shipwreck auctions failed to attract traditional Chinese export porcelain enthusiasts, most notably the Portuguese and Brazilians who are a market backbone and who favor flashy, bright-colored free-standing pieces as well as objects emblazoned with coats of arms. And with literally thousands of Hatcher finds now flooding the market, experts have doubts about the resale value.

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